No. 20/11/2012-APDRP  
Government of India  
Ministry of Power  

New Delhi, the 05th October, 2012..

OFFICE MEMORANDUM

Subject: - Scheme for Financial Restructuring of State Distribution Companies (Discoms)

A scheme for Financial restructuring of State Owned Discoms has been formulated and approved by the Government to enable the turnaround of the State Discoms and ensure their long term viability. The scheme contains measures to be taken by the State Discoms and State Government for achieving financial turnaround by restructuring their debt with support through a Transitional Finance Mechanism by Central Government.

2) The salient features of the Scheme for restructuring are as under:-

a. (i) 50% of the outstanding short term liabilities (STL) as of March 31, 2012 to be taken over by State Governments. This shall be first converted into bonds to be issued by Discoms to participating lenders, duly backed by the State Government guarantee. The State Government will take over the liability during next 2-5 years by issuance of special securities in favour of participating lenders in a phased manner keeping in view the fiscal space available till the entire loan (50% of STL) is taken over by the State Government. The door to door maturity will not be more than 15 years with a moratorium of 3-5 years on the principal repayment.

(ii) The State Government would provide full support to the Discoms for repayment of interest and principal for this portion.

(iii) State Government would ensure that issuance of Special securities is within the targets prescribed in FRBM Acts of respective States and even if fiscal space including Debt-GSDP ratio under the FRBM targets is available, States need to remain with their respective Net Borrowing Ceilings (of each of the relevant fiscal) fixed annually as per the formula prescribed by the Thirteenth Finance Commission.

b. Balance 50% of the STL will be rescheduled by lenders and serviced by the DISCOMS with moratorium of 3 years on principal. Repayment of Principal and Interest be fully secured by the State Government Guarantee. The best possible terms are to be extended for the rescheduled loans to improve viability of Discoms operations.

c. The restructuring/reschedulement of loan is to be accompanied by concrete and measurable action by the Discoms/States to improve the operational
performance of the distribution utilities. State Government/Discoms have to commit themselves and carry out certain mandatory and recommendatory conditions as contained in part (C) of the Scheme.

d. A Transitional Finance Mechanism (TFM) by the Central Government in support of the restructuring effort is available, subject to fulfillment of mandatory conditions given in part C of the scheme. The TFM has the following features:

(i) For providing liquidity support by way of a grant equal to the value of the additional energy saved by way of accelerated AT&C loss reduction beyond the loss trajectory specified under RAPDRP (Restructured Accelerated Power Development and Reform Programme).
   - The eligibility of grant would arise only if the gap between ARR and ACS for the year has been reduced by at least 25% during the year judged against the benchmark for the year 2010-11.
   - This scheme would be available only for three years beginning 2012-13.

(ii) Incentive by way of capital reimbursement support of 25% of principal repayment by the State Government on the liability taken over by the State Government under the scheme. The amount to be reimbursed only in case the State Government take-over the entire 50% of the short term liabilities (corresponding to the accumulated losses) outstanding as on 31.3.2012. Detailed guidelines for the Transitional Finance Mechanism as outlined above would be notified separately.

e. For financing of operational losses and interest for the first 3 years on a diminishing scale, a separate arrangement would be worked out after due consultation to be held by Secretary, DFS with representatives of the MoP and the concerned States. Remaining portion of the operating losses will have to be financed by the respective State Government.

f. A copy of the scheme is enclosed at Annexure I.

3. For monitoring the progress of the turnaround plan, two committees at State and Central levels respectively along with third party verifier are to be constituted as under:

(i) The State Level Monitoring Committee (SLMC) would be headed by Chief Secretary or Finance Secretary. The Committee would review the progress on quarterly basis its reports to the Central Level Monitoring Committee (CLMC).

(ii) The CLMC would comprise Member (Energy) of Planning Commission as Chairperson, Secretary (Energy), Secretary (Financial Services) and Secretary (Economic Affairs), Ministry of Finance, representatives of three major lenders, RBI and CMDs of PFC and REC as members with Chairman, CEA as member secretary. CLMC would submit all the proposals received from States to avail the benefits for further consideration by the Distribution Division in the Ministry of Power.
(iii) Annual verification of the performance/achievements of state Discoms shall be done through a third party appointed by Central Electricity Authority (CEA).

4. Support under the scheme will be available for all participating State Owned Discoms having accumulated losses and facing difficulty in financing operational losses. DFS would appoint nodal banks for States who wish to participate in the scheme. The states would then submit their Financial Restructuring Plan (FRP) prepared in consultation with the Nodal banks for approval of State Government and SERC. The Operational Framework Document is given in Annexure II.

5. The scheme will be effective from the date of issue of this order and would remain open upto 31st Dec 2012, or as extended by the Government of India, whichever is later.

6. Various departments/agencies of GOI under the scheme would be responsible as under:

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<th>Department/ Ministry</th>
<th>Responsibility</th>
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<td>• Bring out draft model legislation on State Electricity Distribution etc. Responsibility bill, after due inter-ministerial consultation within a period of twelve months.</td>
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<td>• Make provision for TFM in the Budget and to process claims received from States through CEA under TFM.</td>
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<td>II.</td>
<td>Central Electricity Authority</td>
<td>• Appoint agencies for Third Party Verification and fixing their TOR.</td>
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<td>• Constitute CLMC</td>
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<td>• Work as secretariat for CLMC and process the applications for incentive.</td>
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<td>III.</td>
<td>Department of Financial Services</td>
<td>• Appoint Nodal Banks for the State Discoms under the scheme</td>
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<td>• Overall supervision in the finalization of the FRP for the State Discoms</td>
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<td>• Work out a separate arrangement for financing operational losses for the first 3 years in consultation with MOP and concerned States.</td>
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<td>IV.</td>
<td>Department of Economic Affairs</td>
<td>• Frame guidelines for issuance of bonds/ Spl securities by the Discoms/Governments under the scheme.</td>
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<td>V.</td>
<td>Department of Expenditure</td>
<td>• Keep provisions for issue of bonds/Spl securities by the State Governments.</td>
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<td>• Ensure that enough head room is left within the</td>
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<th>overall borrowing powers and net borrowing ceiling for issue of special securities.</th>
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<td>VI.</td>
<td>RBI</td>
<td>• Advise on the rate of interest for bonds and securities.</td>
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| VII. | Planning Commission | • FRP projections to be kept into account while finalizing the annual plans for the State Government.  
• Provide Plan outlay to the MOP for payment of incentive under the scheme. |

7. An empowered inter-ministerial group of Secretaries will be setup by the Ministry of Power for removal of difficulties in implementing the scheme. The recommendations of the Empowered Group of Secretaries will require the approval of the Minister of Power, in consultation with Ministry of Finance wherever necessary.

8. This issues with the approval of Competent Authority.

(A. K. Singh)  
Under Secretary to the Government of India  
Tele. No. 2371 9637  
5/10/2012

To
1. Ministry of Finance, Deptt. of Expenditure (PF-I Section) (Shri Rajiv Kumar, Joint Secretary), North Block, New Delhi.
2. Ministry of Finance, Deptt. of Expenditure (PF-II Section) (Shri Saurabh Garg, Joint Secretary), North Block, New Delhi.
3. Planning Commission (Shri I.A. Khan, Adviser (Energy), Yojana Bhawan, New Delhi.
4. Ministry of Finance, (Shri Anurag Jain, Joint Secretary), Department of Financial Services.
5. Ministry of Finance, (Shri Prabodh Saxena, Joint Secretary), Department of Economic Affairs.
6. Reserve Bank of India (Shri P.V.,Bhaskar, Executive Director).

Copy to:
(i) PS to MoP/ MOS(P)
(ii) PPS to Secretary(P)
(iii) PPS to AS(DC)/ PSO to AS(AL)
(iv) PS to JS(DS) /PS to JS&FA/PPS to JS(RA)/PS to JS(SP)/PS to JS(IK)/PPS to JS(JA)
(v) PS to Economic Advisor
(vi) PPS to Chairman, CEA
(vii) Controller of Accounts, Seva Bhawan.

(A. K. Singh)  
Under Secretary to the Government of India  
5/10/2012
Scheme for Turnaround of State Discoms

A. Preamble

Distribution provides the crucial last mile connectivity in the electricity sector. Unlike other two sectors – generation and transmission, distribution consumers are varied, numerous and disparate. The sector continues to be almost entirely served by the Government utilities in spite of unbundling of erstwhile vertically integrated board.

Post unbundling of the State Electricity Board, it was expected that the newly formed functional utilities would operate on sound commercial principles under the regulatory supervision of the State Electricity Regulatory Commissions. The functioning of the SERCs was expected to depoliticize tariff setting and bring about greater transparency in the functioning of the power utilities. However, due to a variety of factors, the desired outcome has not been achieved and after a decade of the one time settlement of outstanding dues, the distribution utilities find themselves again in a situation which has the potential of affecting not only the power sector but the financial sector as well. Many Discoms borrowed heavily for technical system strengthening for loss reduction and for managing growing loads thus assuming a greater financial burden than their revenues could support. This was compounded by increased borrowings for operational requirements, for meeting the rising cost of power procurement, disproportionate expenditure on short term power purchase and constraints imposed by State regulators. The deteriorating health of Discoms is affecting their ability to procure incremental power, commissioning of new generation capacity and the debt servicing of power producers. This may derail the capacity addition programme and could lead to a situation of stranded capacity on the one hand and dissatisfied consumers on the other.

The accumulated losses of the state power distribution companies are estimated to be about Rs 1.9 lakh crore. As per the Annual Report 2011-12 on The Working of State Power Utilities and Electricity Departments brought out by the Planning Commission, between 2007-08 to 2011-12 the overall unit cost of supply has increased by 21% with

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interest payment increasing 65% and power purchase by 21%. The share of expenditure on power purchase in the total cost of supply has increased from 39% in 1998-99 to 70% in 2009-10. Non-revision of tariffs, non-payment of subsidies, high cost of power purchase and high distribution losses are some of the key reasons for the poor financial health of the Discoms.

Further, there has been rapid decline in their net worth. The gap between Average Cost of Supply and Average Revenue realised has increased from 76 p/kwh in the year 1998-99 to 145 p/kwh in the year 2009-10. The losses of power utilities pose a serious threat to fiscal consolidation of some states. The financial health of some of the states is also not good and has already breached the FRBM limits. The aggregate debt of SPUs has been increasing by a CAGR of more than 19% in the last 3 to 4 years.

1.2 Any turnaround strategy has to be based on the principle that gap between ARR and ACS is eliminated as early as possible, liability to be taken over by State Government/ equity infusion by State Government, subsidy not to be funded by banks but to be provided in full by State Government as per the Electricity Act and Average DSCR to be atleast 1. The present scheme will require participation of all stakeholders. The scheme as detailed in following paragraphs has been prepared keeping in view the fragile health of utilities and State Government, coupled with serious systemic deficiencies in the working of State Discoms and underlying principles of turnaround as aforesaid. The scheme contains immediate/ continuing and short term measures required to be taken in a time bound manner by the Discoms and State Governments. These measures include Financial Restructuring, Tariff Setting & Revenue Realization, Subsidy, Metering, Audit & Accounts and Monitoring. Unless these measures are taken and States assume full responsibility of running the utilities on sound commercial principles, any turnaround of the state utilities may not be possible.

State Governments being the owner of the Discoms will have to take a part of the burden of accumulated losses of the Discoms and the Financial Institutions (Including PFC & REC) and Banks will have to support the restructuring of debt by waiver of penal interest, moratorium on repayment of Principal and restructuring of existing loans. The

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scheme also envisages a Transitional Finance Mechanism by Central Government to support the restructuring effort of the State Government and distribution utilities as outlined in FRP. The objective is to improve the liquidity position of the Discoms in the initial years by way of an incentive equal to the value of additional units of energy saved over and above the prescribed targets for AT&C reduction in RAPDRP and in the long term a turnaround support in redemption of bonds based on achieving pre-determined goals. Central Government support as incentive for accelerated reduction of AT&C losses and reimbursement of a part of the principal amount of State Government bonds is also considered in the scheme. The estimated financial implication of the incentive for accelerated AT&C loss reduction would be about Rs 1500 crore at an all India level for one percent reduction in losses over & above RAPDRP targets. The estimated financial implication post issuance of bonds/Spl Securities with moratorium of 5 years and repayment of 10 years by State Government would be about Rs 24,000 crore (approximately) on account of 25% of the principal value of State Govt Bonds.

B. Scheme for issuance of bonds for Short term loans and payables corresponding to Accumulated Losses of the Discoms outstanding as on 31.03.2012.

2.1 Effective Date

The scheme is effective from date of notification of the scheme and will remain open upto 31st Dec 2012 unless extended by the GOI. Support under the scheme will be available for all participating State owned Discoms on fulfilling certain mandatory conditions as outlined in Part C.

2.2 Eligible amount

The scheme covers 50% of the outstanding short term liabilities (on account of outstanding Short term loans and payables for power purchase) of the Discoms corresponding to the accumulated loss of the Discoms as on 31.03.2012.

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2.3 Cut off Date

The cut-off date for reckoning the eligible amount of short term liabilities for bonds/ reschedulement under the scheme shall be 31.03.2012.

2.4 Waiver of Penal Interest

While restructuring/ rescheduling of loans, penal interest, if any, levied by banks/ FIIs shall be waived and not included in the outstanding amount computed towards reschedulement or issuance of bonds.

2.5 Issuance of Bonds by Discoms on behalf of State Government and Reschedulement of loans.

2.5.1 50% of the outstanding short term liabilities upto March 31, 2012 would be taken over by the State Government. Discoms would issue bonds to the participating lenders backed by State Government guarantee, which would be taken over by State Governments. As these bonds are on behalf of State Government the exact period of moratorium, rate of interest etc is to be decided by banks in consultation with participating States and RBI.

2.5.2 During the next 2 to 5 years, the State Govt would take over this liability through issuance of special securities in favour of participating lenders in a phased manner as per the space available in the State FRBM limit, till the entire bonds corresponding to 50% of Short Term liability is taken over by the State Government. The door to door maturity should not be more than 15 years with a moratorium of 3 to 5 years for the principal. State Govt to ensure that issuance of Special securities to be within the targets prescribed in FRBM Acts of respective States and even if fiscal space including Debt-GSDP ratio under the FRBM targets is available, States need to remain with their respective Net Borrowing Ceilings (of each of the relevant fiscal) fixed annually as per the formula prescribed by the Thirteenth Finance Commission.

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2.5.3 The State Government will provide full support to the Discoms for repayment of interest and principal till the entire bonds corresponding to 50% STL is taken over by the Government. When these bonds are taken over by the State Govt, it should not be adjusted as loan from State Government to the Discoms. Phasing of bonds based on provisional figures is given in Annexure I. However, in case a State is able to find more fiscal space during any year, it should ensure that liabilities are taken over as soon as possible. The figures may undergo change on finalization of accounts. Accordingly the phasing of bonds would be done by Department of Expenditure.

2.5.4 Balance 50% short term liabilities shall be rescheduled and serviced by the Discoms with a moratorium of 3 years on principal and will be backed by a State Government guarantee. Exact terms and condition for restructuring would be decided by lenders in consultation with respective State Governments and Discoms keeping in view the specific circumstances of the state utilities.

2.5.5 Restructuring will be restricted to short term liabilities of the Discoms. Banks and Financial Institutions would extend fresh loans to the Discoms for the payables in respect of power supplies of more than 60 days as on 31.03.2012. Such Loans will also be included for the purpose of restructuring.

2.5.6 Short Term Liabilities for the purpose of this scheme means and includes Short term loans, working capital loans, payable to the power suppliers and includes other loans except for those loans taken for financing capital expenditure.

2.5.7 Banks and Financial Institutions to offer best possible terms of restructuring.

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2.5.8 For the purpose of restructuring, nodal bank shall be nominated by Department of Financial Services (DFS) for every state/Discoms to coordinate the restructuring exercise between Discoms, State Governments and participating lenders. The nodal bank shall finalise the FRP within 30 days after the announcement of the scheme and operationalise the restructuring with Discoms seeking the approval of the State Electricity Regulators. The restructuring shall be done under overall monitoring of DFS for effective implementation in a time bound manner.

2.6 Central Government Support

Although it is the primary responsibility of the State Government to manage the distribution sector through its utilities, Central Government support would enable the States to take over the outstanding short term liabilities as described above. Central Government would provide support in the following areas to the participating States under the scheme subject to fulfilment of mandatory conditions given in part C.

- Transitional Finance Mechanism to be set up by Ministry of Power in support of the restructuring effort of the State Government and the distribution utilities in respect of the following
  a) (i) For providing incentive by way of a grant equal to the value of the additional energy saved by way of accelerated AT&C loss reduction beyond the loss trajectory specified under RAPDRP i.e. utilities having AT&C losses above 30% - Reduction by 3% per year and utilities having AT&C losses below 30% - Reduction by 1.5% per year, with the base year of 2010-11.

  (ii) The eligibility of grant would arise only if the gap between ARR and ACS for the year has been reduced by at least 25% during the year judged against the benchmark for the year 2010-11.
(iii) This scheme would be available only for three years beginning 2012-13.

(iv) The base year for reduction of AT&C losses would be 2010-11 and the incentive would be provided only after the benchmark for 2010-11 has been established after final audit of the accounts by CAG. Subsequently, the incentive shall also be provided based on the audited annual accounts of the Discoms by CAG.

b) Reimbursement support of 25% of principal repayment of Bonds/Spl Securities issued by Discoms and taken over by State Government as outlined in the scheme as per Para 2.5. The amount to be reimbursed only in case the State Govt take-over the entire 50% of the short term liabilities corresponding to the accumulated losses outstanding as on 31.3.2012.

- Banks cannot provide short term loans for funding cash losses of Discoms. However, for financing operational losses and interest for the first three years on diminishing scale, a separate arrangement would be worked out in respect of focus States such as Rajasthan, Tamil Nadu, Haryana and Uttar Pradesh after due consultations to be held by Secretary, DFS with representatives of the MoP and the concerned States. Remaining portion of the operating losses to be financed by the respective State Govt. The same arrangement would be worked out in other States having similar problems.

C. Mandatory Conditions

The proposed restructuring/reschdulement of loans is to be accompanied by concrete and measurable action by the Discoms/States to improve the operational performance of the distribution utilities without which the proposed exercise may turn out to be a temporary measure. In order to make the effort meaningful State Governments/Discoms must commit themselves to and carry out certain mandatory conditions and consider other recommendatory measures to improve their functional

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efficiency, shore up their revenues and make the sector viable. It is also hoped that in future lending to the Discoms would be after a careful assessment of their credit worthiness, based on a credit rating mechanism. The conditions given in this part are mandatory and failure to adhere to these mandatory conditions would make State Govt and Discoms ineligible for any incentive or grant under the scheme.

3.1 Financial Restructuring Plan

- Preparation of Financial Restructuring Plan for the state Discoms and approval from the principal lenders.
- State Government shall convert all its loans to equity or defer the recovery of such loans along with interest till the loans rescheduled by banks/FIs are fully repaid.
- The restructuring of Short Term Liabilities (STL) will be done after netting the outstanding subsidy and energy bills due from State Govt to the Discoms, only where the net amount is positive. The State Government shall pay all its outstanding energy bills as of 31.03.2012 by 30.11.2012 and the utilities shall furnish a certificate to this effect by 31.12.2012 to CLMC through SLMC. In case the net STL is positive, subsidy shall be paid before 31.03.2013. In other cases subsidy shall be paid not later than 31.03.2015.
- FRP of Discoms of respective states is to be filed with state ERCs for in-principle approval.
- The State Government would ensure that Discoms eliminate the gap between ACS and ARR within the period of moratorium of the bonds issued by the State Government.
- State Government and Discoms not to resort short term loans from Banks/FIs to fund operational losses except as provided in the Scheme.
- Road map for involvement of private sector in state distribution sector through franchisee arrangements or any other mode of private participation to be prepared within a year by the Discoms and submitted to CEA for approval. This will be reviewed at State and Centre Level monitoring committees.

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3.2 Tariff Setting & Revenue Realization

- The Tariff order for 2012-13 should have been notified before the FRP is approved and for subsequent years should be notified by 30th April of each Financial year as per Model Tariff Regulation.
- APTEL judgment dated November 11, 2011 to be complied with by states and compliance report filed as per directions of APTEL.
- Fuel cost adjustment be allowed as directed by APTEL to off-set the increase in power procurement cost.
- SERC be requested to allow revised tariff with effect from 1st April of each year so that the impact of tariff revision is fully realized during the financial year.
- APTEL to be approached for recovery of expenditure disallowed by SERC which in the opinion of Discoms should have been allowed.
- The Discoms should submit a time bound plan for liquidation of regulatory assets along with its carrying costs and the same should be incorporated in their ARR petitions including true up petitions and approval obtained from the ERCs.
- State Government shall make a firm commitment to underwrite the shortfall as equity or interest free loan on annual basis if annual projections in FRPs are not achieved and provide the shortfall annually.
- FRP to include targets for progressive reduction in Short Term Power (STP) purchase by the State Discoms ranging between 5%-10% from 2013-14 onwards, as against the benchmark for the year 2010-11.

3.3 Subsidy

- Release of agricultural subsidy should be based on feeder/distribution transformer meter data. PFC will engage a third party agency to carry out random verification of the same and submit a report to the Central Monitoring Committee.

Subsidy should only be provided by the State Government as per declared policy and the amount of subsidy given by the State should be adjusted in the ARR on account of that specific category of consumers. As per section 65 of the
Electricity Act subsidy should be paid upfront by the State Governments to the Discoms.

3.4 Metering

- Prepaid meters to be installed by 31.3.2013 for all Government consumers and large consumers (1 MW and above) where defaults have occurred. Depending on the number of such consumers and availability of meters, this time limit may be extended by the Central Level Monitoring Committee on recommendation of the State Level Monitoring Committee for reasons to be recorded in writing.
- A time bound plan for metering of all categories of consumers to be put in place and submitted to CLMC through SLMC. CEA will monitor the progress with respect to the plan. Discoms to submit six monthly progress reports to CEA in this regard.

3.5 Audit and Accounts

- Audited accounts for and up to FY 2010-11 must be finalized on top priority by 30.11.2012.
- Audited accounts for 2011-12 to be finalized by 31st January 2013 and brought in alignment with the provisions of Companies Act, 1956 by 2013.

3.6 Monitoring

- Monitoring Committee at State level to be setup for effective implementation of the scheme.
- FRP may be made part of the annual state budget statements for effective monitoring of its impact on State finances. States will enact the legislation within twelve months from the date of circulation of model legislation by Ministry of Power to mandate the compliance of the provisions of FRP.
- Lenders may appoint a Nominee Director on the Board(s) of the Discoms.
- To ensure the States take over the liability as given in Annexure-I of this scheme enough room should be left within the overall borrowing space for these bonds

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while fixing the open market by the Department of Expenditure and RBI while chalking out the calendar of State Market Borrowings.

- Planning Commission should take into account these figures while approving the financing of the annual plans of these States.
- The restructuring shall be done under overall monitoring of Department of Financial Services for effective implementation in a time bound manner.

3.7 **Recommendatory conditions**

- Achieving cost competitiveness through procurement of power through competitive bidding through Case-I and Case-II for which a time bound plan be prepared.
- Action plan be prepared for identifying and writing off fictitious receivables from the books of accounts of the Discoms.
- Working capital facility should be limited to purchase and discounting of bills in line with the recommendations of the Shunglu committee.
- Alternate source of raising cash to pay off debt i.e., sale of carbon credits, surplus land etc. to be explored.
- State Government may consider reviewing the performance of their generating assets as well as bigger substations in consultation with NTPC/NHPC/PGCIL to make them commercially viable.
- Open access in the distribution sector should be fully operationalized in keeping with the provisions in the Electricity Act and the National Tariff Policy and the legal opinion provided by the Attorney General of India and the Ministry of Law, Government of India.
- States should get the SERC to prepare and notify a road map for reduction in cross subsidy within six months from the date of approval of the proposed scheme.

[Signature]

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D. Monitoring Mechanism

4.1 For monitoring the progress of the turnaround plan, two committees at State and Central levels respectively are to be formed.

4.2 State Level Monitoring Committee (SLMC)
The State Level Monitoring Committee would be headed by Chief Secretary or Finance Secretary as Chairperson and Power Secretary as Member Secretary, Heads of Discoms and representatives of three major lenders of the Discoms, representative from RBI and CEA as members. The Committee would review the progress on quarterly basis till the turnaround of the State Discoms and will submit its reports to the Central Level Monitoring Committee. Subsequently, the SLMC will meet once every half year.

4.3 Central Level Monitoring Committee (CLMC)
The Central Level Monitoring Committee would comprise Member (Energy) of Planning Commission as Chairperson ,Secretary (Power), Secretary (Financial Services ) and Secretary (Economic Affairs) ,Ministry of Finance, representatives of three major lenders and RBI and CMDs of PFC and REC as members with Chairman, CEA as member secretary. The committee would meet on a quarterly basis till the turnaround of all state Discoms. Subsequently, the CLMC will meet every half year.

- CEA through Central Level Monitoring Committee would submit all the proposals received from States to avail the benefits under Transit Finance Mechanism for further consideration by the Distribution Division in the Ministry of Power.
4.4 Third Party Verification (TPV)

An annual verification of the performance achievements of state Discoms shall be done through a third party. The third party shall be appointed by the CEA who will fix its TOR.

5.0 Objectives and Expected Outcomes

The objective of the proposed scheme is to enable the State Governments and the DISCOMs carve out a strategy for the financial turnaround of the distribution companies in the State power sector which will be enabled by the lenders agreeing to restructure/reschedule the existing short-term debt. As the restructuring/rescheduling by lenders is subject to certain prior steps to be taken by the State Government/DISCOMs and their commitment to fulfill mandatory conditions which are aimed at bridging the gap between the average cost of supply and the average revenue realized, this would help in restoring the viability of the distribution sector in the State. By restructuring and rescheduling the outstanding short-term debt the lenders would be able to avoid the impending possibility of the debt turning into non-performing asset and securing the commitment of the State Governments in the discharge of debt service obligation in the long-run. Government of India support through the transitional finance mechanism would serve the purpose of incentivizing the fulfillment of mandatory conditionalities as also providing confidence to the lenders.

The expected outcomes from the implementation of the proposed scheme would be:

a. Providing comfort to the lenders by securing State takeover of and guarantee for debt,
b. Bringing about financial discipline in the distribution sector in the State,
c. Providing a commercial orientation to the functioning of the distribution companies,
d. Casting responsibility on the State Government to ensure a steady flow of revenue to the distribution companies by improving the efficiency of their operations,
e. Accelerate the AT&C loss reduction effort of DISCOMs,
f. Ensure regular redetermination of tariff to cover cost of service,
g. Gradual elimination of the gap between ACS and ARR.
h. Ensure timely audit of DISCOM accounts
i. Improve the financial health of the Distribution Utilities to enable them to procure more electricity for meeting their growing demands.

6.0 Contributions of Participating Entities
The implementation of the scheme and the attainment of the expected outcome would require the participating entities to make the following contributions:

A) State Govt: The State Govt would make the following contributions:
   a. Conversion of State Govt Loans given to Discoms to equity.
   b. Addition to State Fiscal deficit and market borrowings.
   c. Takeover of bonds issued by Discoms equal to 50% of short term liabilities of Discoms corresponding to accumulated losses as on 31.03.2012 and providing support in payment of interest and repayment of principal till the date of takeover from Discoms.
   d. All outstanding dues from Govt department to Discoms for supply of electricity to be paid before 30.11.2012. Amount of subsidy in arrears to be paid before 31.03.2013 where the net STL is positive, in other cases it is to be paid not later than 31.03.2015. In future prepaid meters to be installed in the Govt buildings.
   e. Release subsidy in advance and based on feeder data.
   f. Provide State Govt guarantee for loans/bonds to be raised/issued by Discoms.
   g. Nominate lenders representative on the board of Discoms,
   h. As owners of State Discoms undertake to make good the shortfall in projected turnover as per FRP.
   i. Enact the legislation within twelve months from the date of circulation of model legislation by Ministry of Power to mandate the compliance of the provisions of FRP.

B) State Discoms: The State Discoms would contribute the following:

A. K. Singhal
a. Issue of bonds on behalf of State Govt equal to 50% of short term liabilities corresponding to accumulated losses as on 31.03.2012.

b. Finalization and audit of accounts upto the year 2011-12 of the Discoms before 31.01.2013.

c. Finalization and approval of FRP from lenders

d. Filing of tariff petition with SERC on time so that tariff order may be issued for the year in the month of April.

e. Liquidation of regulatory assets in a time bound manner.

f. Undertaking for not resorting to short term loans for funding operational losses except as provided in the scheme.

g. Appoint Lender’s representative on the Board of Directors.

h. Work towards private participation in distribution of electricity.

i. Identification and provisioning of fictitious assets in the books of accounts.

j. Reduce T&D losses and increase collection efficiency to minimize AT&C losses.

C) Banks and FIs: Banks and Financial Institutions to contribute the following:

a. Accept State Govt Bonds in lieu of debt service from the Discoms.

b. Rescheduling of principal repayment of Discoms loans.

c. Waiver of Penal Interest levied on Discoms, if any.

d. Not to provide short term loan for funding cash losses of Discoms except as provided in the Scheme.

e. Further lending to State Discoms be as per credit rating of the Discoms.

D) Central Govt: The Central Govt would make the following contributions:

a. Incentive payment to Discoms for accelerated AT&C loss reduction and reimbursement support of 25% of principal repayment of State Govt bonds issued under the scheme to be finalized by Ministry of Power in consultation with Ministry of Finance.

b. For purpose of restructuring, Nodal Bank to be nominated by the Department of Financial Services for every State. The restructuring shall be done under the overall monitoring of DFS for effective implementation in a time bound manner.
c. For Financing the operational losses and interest for the first three years on diminishing scale, separate arrangement would be worked out after due consultations to be held by Secretary, DFS with representatives of the MoP and the concerned States. No funding of the losses will be done by the banks from 2015-16 onwards.

d. On finalization of 2011-12 accounts, bond issue requirements of Discoms and the phasing shall be finalized in consultation with Department of Expenditure. Department of Expenditure shall fix the annual market borrowing limit keeping in mind the phasing so decided and the calendar should be decided accordingly.

e. Planning Commission shall take into account these figures while approving the financing of the annual plans of these states.

f. Ministry of Power to bring out draft model legislation on State Electricity Distribution etc. Responsibility bill, after due inter-ministerial consultation within a period of twelve months from the approval of the Scheme.

E) **Consumers** The consumers of electricity would be benefited under the scheme with supply of reliable and quality power by the Discoms, more number of electricity units supplied and better services from the Discoms. However support of the consumers in the following area is required:

a. Rationalisation of tariff to reflect the true cost of power supplied.

b. Stringent measures for reduction in power theft

c. Reallocation of subsidy for supply of electricity as per Subsidy policy of the State Govt.

A. K. Singh
### Phasing of Spl Securities to be issued by the State Govt to the Discoms

(Rs crore)

<table>
<thead>
<tr>
<th>State</th>
<th>50% of STL</th>
<th>2012-13</th>
<th>2013-14</th>
<th>2014-15</th>
<th>2015-16</th>
<th>2016-17</th>
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<tbody>
<tr>
<td>Andhra Pradesh</td>
<td>3151</td>
<td>2211</td>
<td>940</td>
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<td>72</td>
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<td>2880</td>
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<tr>
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<td>12967</td>
<td>1919</td>
<td>2245</td>
<td>2559</td>
<td>2918</td>
<td>3326</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>59813</strong></td>
<td><strong>11134</strong></td>
<td><strong>13220</strong></td>
<td><strong>13415</strong></td>
<td><strong>12050</strong></td>
<td><strong>9994</strong></td>
</tr>
</tbody>
</table>

A. K. Singh

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Operational Framework Document

Financial Restructuring of State Discoms.

Application Stage

State Govt
(Application to MOP/DFS for benefit under the scheme)

Ministry of Power

Department of Financial Services
(Appointment of Nodal banks)

FRP preparation and Approval

State Govt

State Discoms

Nodal Banks (consultation with other lenders)

FRP for the State Discoms Containing the stipulated conditions.

SERC (In principle Approval)

FRP submitted to MOP & Department of Financial Services

Other Activities

1. Signing of FRP – Acceptance of mandatory conditions and roadmap for recommendatory conditions
2. Approval by State/SERC.
3. Issue of bonds/Spl securities to lenders by Discoms/ State Govt.
4. Waiver of penal interest by lenders and restructuring of loans.

A. K. Singh
Monitoring Setup

State Govt
- Constitution of SLMC (Monitoring of Turnaround activities and monthly reporting to CMC)

Ministry of Power
- Constitution of CLMC (Based on the projections budget provisions to be made every year)

CEA
- Appointment of TPV (Collect data and put up report to CLMC)

Claims under the Scheme

Transitional Finance Mechanism

Grant for reduction in AT&C Losses
- State Discoms

Capital reimbursement support of 25% of principal repayment

State Govt

SLMC (Review)

CEA (To put up to CLMC)

CLMC (To review and recommend)

MOP (Release of funds in consultation with DOE)

A.K. Singh